

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 6269**

**BILL NUMBER:** SB 14

**DATE PREPARED:** Nov 4, 1999

**BILL AMENDED:**

**SUBJECT:** Tax abatement; research and development.

**FISCAL ANALYST:** Bob Sigalow, Diane Powers

**PHONE NUMBER:** 232-9859, 232-9853

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** *Abatement period:* This bill provides that property tax abatement deductions may be granted for any number of years less than or equal to ten years. (Current law limits the abatement deduction to three, six, or ten years for real property and five or ten years for personal property.)

*Research & development abatement:* The bill also provides that certain research and development equipment is eligible for property tax abatement deductions. The bill allows the abatement deduction for research and development equipment only if the equipment is used in research and development activities devoted directly and exclusively to experimental or laboratory research and development for new products, new uses of existing products, or improving or testing existing products.

*Research & development income tax credit:* The bill provides that the research expense credit against gross income taxes, adjusted gross income taxes, and supplemental corporate net income taxes expires December 31, 2002 (instead of December 31, 1999).

**Effective Date:** December 30, 1999; July 1, 2000.

**Explanation of State Expenditures:** *Abatement period:* The State Tax Board processes the personal property abatement forms and certifies the amount of assessed value (AV) to be abated to the county auditor. The Tax Board would need to alter the computer programs that process these forms because of the option to grant abatements from one to ten years in duration. The Tax Board should be able to complete this task with current resources.

**Explanation of State Revenues:** *Research & development abatement:* The State levies a one cent tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax.

If there is an increase in development because of this incentive, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would be made with or without the abatement then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

*Research & development tax credit:* This bill extends the expiration date of the Research Expense Credit for three more years. Under the current statute, this credit is set to expire December 31, 1999. Over the past five years, this income tax credit has ranged from \$7 M to \$15 M. In FY 96 and FY 97, \$9.2 M and \$15.3 M of tax credits were claimed respectively. It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on the amount of research expenses individual taxpayers make during the year. However, the revenue loss is expected to continue to be within the range of \$10 M to \$15 M annually.

This bill applies to tax years that begin January 1, 2000 for expenses that have been incurred by December 31, 2002. This will affect revenue collections for FY 2001, FY 2002 and FY 2003. Corporate Gross Income, Adjusted Gross Income and Supplemental Net Income taxes are deposited in the General Fund and Property Tax Relief Fund.

### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Abatement period:* Currently, real property may be abated for 3, 6, or 10 years and personal property may be abated for 5 or 10 years. The length of abatement, within the above constraints, is left up to the local designating body. This proposal would allow the local designating body to determine the number of years, from one to ten, for which a real property or personal property ERA abatement may be granted. The bill also reduces the abatement percentages for the five and ten year abatements on personal property.

While giving the local designating bodies more options as to the length of the deduction might produce overall shorter abatement periods for new abatements, it could also encourage an increase in the number of abatements granted. This is because sometimes a designating body might be reluctant to allow a long abatement period for a small project. This provision allows a shorter, possibly more equitable, alternative. Therefore, it could be concluded that, overall, this provision may have a minimal effect on the total amount of tax shift due to ERAs.

*Research & development abatement:* In addition to the types of property that may currently qualify for abatements, this bill would allow abatements for “new research and development equipment”. The equipment could consist of laboratory equipment, R&D equipment, computers and software, telecommunications equipment, or testing equipment. The equipment must be used in R&D activities devoted exclusively to R&D of new products, new uses of existing products, or the improvement or testing of existing products. Equipment installed in facilities used for efficiency surveys, management studies, consumer and economic surveys, advertising or promotion, and research on literacy or history projects would not qualify for an abatement under this provision.

If there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements (ERAs) could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

**State Agencies Affected:** State Board of Tax Commissioners; Department of State Revenue.

**Local Agencies Affected:** County auditors; Local ERA designating bodies.

**Information Sources:** Department of State Revenue.